DC Fiscal Policy Institute

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A BIG GAP:
INCOME INEQUALITY IN THE DISTRICT REMAINS ONE OF THE HIGHEST IN THE NATION

By Caitlin Biegler

The richest five percent of District households have an average income of $473,000, the highest among the 50 largest cities in the United States. Meanwhile, the poorest 20 percent of District households have incomes averaging under $10,000. As a result, income inequality in DC — the gap between rich and poor — is tremendous. It is third highest among the nation's largest cities.

An analysis of data from the 2010 American Community Survey suggests that while the District's economy has led to economic growth and prosperity for many on the middle and higher rungs of the ladder, residents on the bottom of the income scale largely are being left behind.

Highlights of the findings:

- The average income among the top five percent of households in DC — $473,000 — is the highest among the 50 largest U.S. cities. This is far higher than the $292,000 average income of the top five percent among all large U.S. cities. (See Appendix I.)

- The average income among the top 20 percent of DC households — $259,000 — is higher than in every city except San Francisco. (See Appendix II.)

- The poorest DC households by contrast — those in the bottom fifth by income — had an average income of $9,100. This is close to the average among the largest U.S. cities.

- The gap between high-income and low-income households in the District is the third-highest among the 50 largest cities, after Atlanta and Boston. In DC, the average income of the top fifth is <u>29 times</u> the income of the bottom fifth. Among the 50 largest U.S. cities, the average income of the top fifth of households is <u>18 times</u> the income of the bottom fifth.

- The substantial income inequality in DC reflects both a significant concentration of the metro area's high income and low-income populations. The poverty rate in the metropolitan Washington suburbs is 7.1 percent, while the poverty rate in the District is nearly three times higher, at 19.2 percent. This is one of the highest central city and suburban poverty disparities among large cities in the nation.

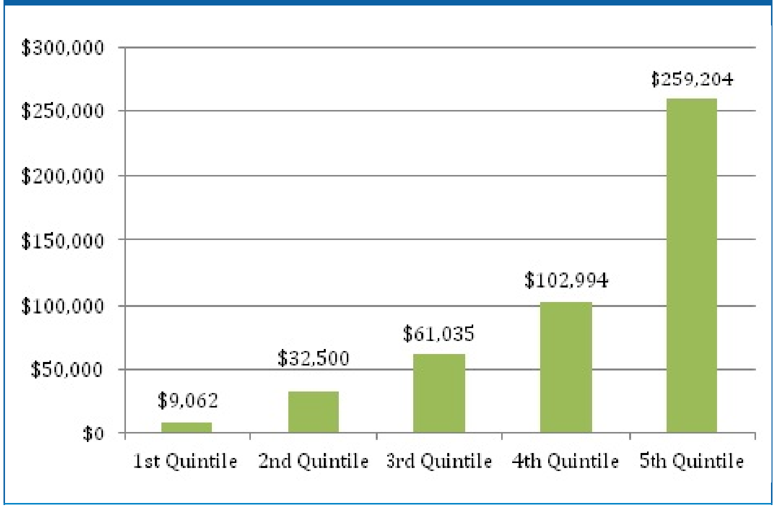
Addressing income inequality — lifting the incomes of those at the bottom — requires adequate funding for programs that support the city's workforce and affordable housing supply. Funding programs that help low-income households prepare for and find living-wage jobs and that help families live in decent and reasonably priced housing are among the most effective ways to close this gap.

A Comparison of Income Gaps in DC and Other Large U.S. Cities

Using data from the 2010 American Community Survey, this report compares household incomes in cities with populations above 400,000 and cities above 300,000 if they are part of one of the nation's largest metro areas. Income inequality was measured by the ratio of the average household income of the lowest and highest quintiles in each city.

Figure 1 shows the income of DC households divided into five groups. The first quintile includes the lowest-income 20 percent of households, while the fifth quintile comprises the highest-income 20 percent of households in the District.

Figure 1:
Average Income of DC Households by Quintile in 2010



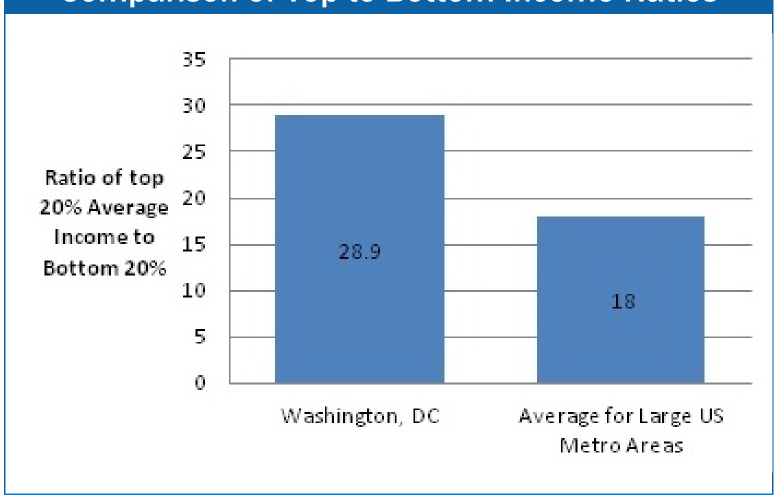
These figures reveal wide disparities in incomes for DC households, and show that the gaps in DC are much wider than in most large U.S. cities. While the top and middle income tiers in the District largely outpace their peer groups in cities across the country, the lowest-income group of District households lags behind in comparison to other cities. In addition:

- The average income of the bottom fifth of District households – $9,062 – is lower than the income of the bottom fifth in 27 of the 50 large cities considered in this analysis.

- The average income of the second quintile is $32,500, which is higher than the equivalent group in all but six cities. The households in DC's second-lowest tier have incomes three and a half times those in the lowest group.

- The average incomes of the third and fourth quintiles in the District are in the top five when compared with similar households in the 50 largest U.S. cities in this analysis. DC's middle-income households have average income of $61,000, while those in the fourth quintile have average incomes of $103,000.

Figure 2:
Comparison of Top-to-Bottom Income Ratios



- The average income of the top fifth of District households was $259,000, 29 times higher than the average income for the bottom fifth of households. The ratio of the average income of the top fifth to the average income of the bottom fifth is the third highest among large cities in the U.S, after Atlanta and Boston. The average top-to-bottom ratio in among major U.S. cities is 18.

- The income of the top five-percent of households in the District – $473,000– is the highest among large cities. This is well above the average of $292,000 among the top five-percent in the large cities in this analysis. The richest 5 percent of DC households have incomes over 50 times those in the bottom 20 percent.

There are also disparities between those living within the District and in the surrounding metro area. The difference in the poverty rate in the District and the surrounding area is one of the highest among the large cities considered for this analysis.

- The poverty rate for the District of Columbia was 19 percent in 2010.

- The poverty rate for the surrounding suburban area – the Washington metro area other than the District — was only seven percent.

- The difference in city and suburban poverty rates – over 12 percentage points – is one of the highest among large cities. Out of the 50 cities in this analysis, the District ranked 16th in difference between suburban and central city poverty levels. The average difference among these cities is only nine percent.

What High Income Inequality Says About DC

Income inequality is an important measure of the District's economy. While the middle and upper- income DC households are faring well when compared with peer groups in other major cities, the District's lowest income residents are struggling. The poorest fifth of District households has an average income below $10,000, or less than the federal poverty line for even a family of one. This merits the attention and concern of DC policymakers and the public.

DC's income inequality in large part reflects a wage gap between high-wage and low-wage working DC residents that has widened in the past 30 years. High-wage workers in DC — the top 20 percent of earners — made three times more per hour than low wage workers in 2009: $38.95 versus $12.36, or $3.15 for every $1 for low-wage workers. Low-wage workers have seen smaller earnings gains than middle-wage and high-wage workers. Real, inflation-adjusted wages have grown only 14 percent for those at the bottom of the earnings scale since 1979, compared with 29 percent for middle-wage workers and 44 percent for high-wage workers.

This wide gap in income points to a city with two economies. Residents with a college degree largely are thriving in DC's government- and information-driven economy. Meanwhile, those who lack higher education have far fewer opportunities for economic success.

The median wage for DC residents with a high school diploma – about $14 an hour – has increased only one percent between 1979 and 2009, adjusting for inflation. By contrast, the typical wage for college-educated residents — $30 an hour in 2009 — was nearly 30 percent higher than in 1979. Additionally, employment differences between those with a high-school diploma and residents with a college degree are similarly significant. In 2011, the unemployment rate in the District for residents with a high school diploma but no further education was 24 percent, while the unemployment rate for residents with a college degree was only four percent.

The negative effects of increasing income inequality on the city's low-income population are significant. Growing inequality exacerbates the shortages of affordable housing, and also has negative consequences for children. The gap between the earnings of low-wage workers and a basic family budget is wider in DC than in every city except New York City and Honolulu,[1] and as almost everyone competes in the same housing market, regardless of income, rising rent and home prices equate to fewer affordable housing opportunities for low-income residents. There is also research that has shown that poverty can have a substantial effect on child and adolescent well-being. Children who grow up in households in poverty have higher rates of learning disabilities, developmental delays, and poorer health and school achievement.[2]

How We Can Address Income Inequality

Given these trends in income inequality in the District, there is no guarantee that the benefits of continued economic progress in the city will be shared broadly. Without efforts to reverse this trend, the poorest residents in the District will likely continue to see stagnant incomes.

Education and job training are key factors in helping low-income workers move up the economic ladder. The District can help by funding policy changes that help low-wage workers:

- Prepare for living wage jobs
- Find affordable housing
- Receive better pay

Help Residents Prepare for Living Wage Jobs

More than one in ten District residents are out of work and cannot find a job, and a major reason for this is that many of these residents are not prepared for the jobs available in our labor market. District efforts are needed to help residents gain skills that will allow them to compete in DC's competitive job market.

Table 1:
Comparison of Income Quintiles

	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile	Top 5%
Washington, DC	$9,062	$32,500	$61,035	$102,994	$259,204	$473,343
Average among 50 Large U.S. Cities	$9,464	$26,051	$45,169	$72,598	$164,970	$291,817

The District's plan to redesign its welfare-to-work employment services and to create a workforce intermediary could serve to address this problem.

[1] DC Fiscal Policy Institute *Packing a Punch: The Recession Hit African-American and Non-College Educated DC Residents Particularly Hard*, 2010.
[2] Center on Budget and Policy Priorities and Economic Policy Institute, *Pulling Apart: A State-by-State Analysis of Income Trends*, 2000.

Temporary Assistance for Needy Families (TANF): The federal TANF block grant, which is administered by DC and the states, provides cash assistance and other supportive services to low-income families with children. In DC, one out of three families receives TANF assistance. Federal TANF rules include a work participation requirement which is designed to help clients re-enter the workforce. Workforce activities can vary from job skills training, education related to employment, and subsidized and unsubsidized employment. In recent years, however, the District's TANF employment services have focused primarily on short-term job readiness, even for families with multiple barriers to work.[3]

The DC Department of Human Services is currently in the process of implementing significant reforms to these welfare-to-work services, including a new assessment system to identify client strengths and needs, and a broader range of education and employment options to reflect the varying needs of different recipients. These hold great promise to better prepare families for living-wage work.

However, coinciding with the program redesign is a time limit policy that will reduce the cash benefits for thousands of TANF families before they are able to take advantage of the TANF improvements. These scheduled time limits should be delayed so that District residents have ample time to prepare for the policy change and participate in the newly reformed program.[4]

Workforce Intermediary: A workforce intermediary acts as a matchmaker in the job market. This innovative approach to job matching has worked in other cities, and the District is currently working on implementing a pilot program here.[5]

An intermediary would work with employers, job seekers, training providers such as community colleges and nonprofit organizations, and government workforce agencies such as DC's Department of Employment Services and Office of the Deputy Mayor for Planning and Economic Development to create a stronger workforce development pipeline. Intermediaries contract with training providers and act as a neutral broker between training providers, job seekers in search of skills, and employers. As a result, workforce intermediaries are able to help businesses recruit and retain qualified workers and help workers who need skills participate in training that ends in employment.

Address Housing Concerns

The District is facing a shortage of affordable housing options. Rents prices are among the highest in the nation, and the supply of low-cost housing has fallen by a third since 2000.[6]

Moreover, the District's most important tools to help low-income families afford to live here—such as the Local Rent Supplement Program and the Housing Production Trust Fund—have both experienced sharp budget cuts in recent years.

The Local Rent Supplement Program (LRSP) was created in 2007 to make housing affordable to families with very low incomes, and it provides monthly rental subsidies that cover the rents that these families can afford to pay and the actual monthly cost of rent for the unit. However, funding

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[3] DC Fiscal Policy Institute and SOME, Inc., *Voices for Change: Perspectives on Strengthening Welfare-to-Work From DC TANF Recipients,* 2009.
[4] DC Fiscal Policy Institute, *DC's New Approach to the TANF Employment Program: The Promises and Challenges*, 2012.
[5] DC Employment Justice Center, DC Appleseed, and DC Fiscal Policy Institute, *Reforming First Source: Strengthening the Link Between Economic Development and Jobs*, 2010.
[6] DC Fiscal Policy Institute, *Nowhere to Go: As DC Housing Costs Rise, Residents Are Left with Fewer Options,* 2010.

has been fairly flat for the program since 2008, and in the most recent budget funding was further diverted from LRSP.[7]

The Housing Production Trust Fund (HPTF) supports the construction, rehabilitation, and/or acquisition of units that are affordable to low- and moderate- income households. The program is funded through a share of deed recordation and transfer taxes, a volatile source of funding that fell sharply in the recession. In a slow economy, there are fewer people and businesses buying and selling commercial properties and homes, and consequently fewer taxes available to fund the Trust Fund. Additionally, some $18 million in funding from the Trust Fund was diverted to non-housing programs in 2012, leaving the Trust Fund with minimal resources to fund projects in a time when they are most needed.

These two programs are vital to keeping affordable housing available in the District, but they require adequate funding.

Make Work Pay Better

Most low-income families work but simply earn too little to lift their families above poverty, either due to low wages, limited hours, or both. Among families with incomes below 150 percent of poverty in DC, working adults earn an average of just nine dollars per hour.[8]

One approach to lifting wages for some workers is a living wage. The District has had a living wage law in effect since 2006, but the law needs to be more strictly enforced and expanded. This wage requirement applies to DC government contractors and recipients of government assistance (in grants, loans, tax increment financing in the amount of $100,000 or more), and provides that affiliated employees must be paid $12.50 per hour.

While the living wage does not apply to all workers in DC, this requirement represents an important advance in helping low-earners achieve financial stability in the District. As the minimum wage in the District is $8.25/hour, this $3.75 increase equates to a $7,800 increase in earnings throughout the year.[9] A recent study by DCFPI[10] showed that increasing the wages of low-income workers is one of the most effective ways to lift households out of poverty. If all able-bodied adults were able to work full time and received the living wage, nearly two-thirds of low-income working families would move above 150 percent of the poverty line.

These additional earnings help alleviate the divide between very low- and high-income workers in the city, but there are still many workers who do not qualify for the living wage and live in poverty. According to the Census data, of those in poverty in the District in the past year, over half were employed, further indicating that an expanded and enforced living wage law in the District could have a significant impact.

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[7] DC Fiscal Policy Institute, *What's in the FY 2012 Budget for Affordable Housing?* 2011.
[8] DC Fiscal Policy Institute, *Who is Low-Income in DC*? 2010.
[9] This calculation assumes that the individual works 40 hours/week and 52 weeks/year.
[10] DC Fiscal Policy Institute, *Who is Low-Income in DC*? 2010.

Appendix I:
Average Income of the Top 5% of Households in Large U.S. Cities

Rank	City	Average Income of Top 5% of Households
1	**Washington, DC**	**$473,343**
2	San Francisco, CA	472,606
3	New York, NY	419,734
4	Atlanta, GA	407,073
5	Los Angeles, CA	395,275
6	Seattle, WA	388,153
7	Boston, MA	385,857
8	Charlotte, NC	380,009
9	San Diego, CA	371,374
10	Tampa, FL	362,345
11	Dallas, TX	344,955
12	Denver, CO	341,037
13	Houston, TX	333,823
14	San Jose, CA	331,906
15	Oakland, CA	328,577
16	New Orleans, LA	327,025
17	Chicago, IL	323,358
18	Portland, OR	317,578
19	Austin, TX	315,314
20	Minneapolis, MN	311,427
21	Raleigh, NC	306,647
22	Virginia Beach, VA	300,481
23	Long Beach, CA	294,724
24	Nashville-Davidson, TN	288,403
25	Pittsburgh, PA	283,587
26	Omaha city, NE	281,494
27	Oklahoma City, OK	279,858
28	Phoenix, AZ	274,407
29	Las Vegas, NV	265,037
30	Miami, FL	264,253
31	Fort Worth, TX	262,252
32	Sacramento, CA	261,526
33	Louisville/Jefferson County, KY	258,896
34	Kansas City, MO	256,317
35	Memphis, TN	248,400
36	Baltimore, MD	246,008
37	San Antonio, TX	243,232
38	Albuquerque city, NM	241,184
39	Indianapolis, IN	236,293
40	El Paso city, TX	232,452
41	Fresno city, CA	225,788
42	Philadelphia, PA	223,845
43	Columbus, OH	217,939
44	Arlington city, TX	214,682
45	Mesa city, AZ	213,312
46	St. Louis, MO	203,722
47	Tucson city, AZ	187,609
48	Milwaukee, WI	173,173
49	Detroit, MI	151,247
50	Cleveland, OH	139,457

Appendix II:				
Income Inequality in Large U.S. Cities				
Rank	City	Average Income of Bottom Fifth of Households	Average Income of Top Fifth of Households	Ratio of Top Fifth to Bottom Fifth
1	Atlanta, GA	$6,022	$212,109	35.22
2	Boston, MA	6,219	211,148	33.95
3	**Washington, DC**	**9,062**	**259,204**	**28.60**
4	New Orleans, LA	6,594	168,791	25.60
5	New York, NY	9,022	214,592	23.79
6	Tampa, FL	7,984	187,498	23.48
7	San Francisco, CA	11,527	266,447	23.12
8	Philadelphia, PA	5,692	130,101	22.86
9	Miami, FL	6,218	134,834	21.68
10	Chicago, IL	8,269	176,762	21.38
11	Los Angeles, CA	9,661	203,469	21.06
12	Oakland, CA	9,187	192,155	20.92
13	Minneapolis, MN	8,265	172,374	20.86
14	Denver, CO	9,027	186,279	20.64
15	Baltimore, MD	6,977	142,166	20.38
16	Detroit, MI	4,721	92,933	19.69
17	Dallas, TX	9,392	178,542	19.01
18	Portland, OR	9,185	173,947	18.94
19	Houston, TX	9,405	178,069	18.93
20	Seattle, WA	11,840	220,090	18.59
21	Memphis, TN	7,462	136,112	18.24
22	St. Louis, MO	6,560	119,396	18.20
23	Austin, TX	9,923	178,828	18.02
24	Phoenix, AZ	8,824	158,626	17.98
25	Kansas City, MO	8,318	148,728	17.88
26	Cleveland, OH	5,172	90,354	17.47
27	Charlotte, NC	11,170	194,778	17.44
28	Nashville-Davidson, TN	9,218	156,595	16.99
29	San Diego, CA	12,392	208,873	16.86
30	Louisville/Jefferson County, KY	9,276	147,458	15.90
31	Columbus, OH	8,325	130,292	15.65
32	Fresno, CA	8,880	137,742	15.51
33	San Antonio, TX	9,487	144,117	15.19
34	El Paso, TX	9,011	136,285	15.12
35	Sacramento, CA	10,382	155,657	14.99
36	Tucson, AZ	7,797	116,557	14.95
37	Long Beach, CA	11,708	174,918	14.94
38	Indianapolis, IN	9,288	136,405	14.69
39	Albuquerque, NM	10,367	148,596	14.33
40	Oklahoma City, OK	10,839	155,299	14.33
41	Jacksonville, FL	10,370	147,605	14.23
42	Omaha, NE	10,807	153,743	14.23
43	Fort Worth, TX	11,113	153,778	13.84
44	San Jose, CA	15,980	221,017	13.83
45	Las Vegas, NV	11,294	155,930	13.81
46	Raleigh, NC	12,801	175,194	13.69
47	Milwaukee, WI	8,007	108,716	13.58
48	Mesa, AZ	11,724	134,636	11.48
49	Arlington, TX	13,478	139,595	10.36
50	Virginia Beach, VA	18,962	181,149	9.55